

NATIONAL CREDIT UNION ADMINISTRATION  
WASHINGTON, D.C. 20456  
LETTER TO CREDIT UNIONS

NCUA LETTER NO. 94

DATE: 11-30-87

TO THE BOARD OF DIRECTORS OF THE FEDERAL CREDIT UNION ADDRESSED:

This letter is to clarify NCUA's position on the proper financial statement classification of member share accounts in a Federal credit union.

As you may know, the American Institute of Certified Public Accountants has published a credit union audit guide, effective for financial statements for years ending on or after December 15, 1987, which provides that share accounts should be classified as liabilities.

NCUA does not agree with the AICPA's determination. For the following reasons, we believe it is a misrepresentation to classify shares as liabilities: (1) shares are legally defined as equity; (2) shares represent ownership; and (3) shares are at risk, i.e., share account claims are subordinate to creditor claims on the assets of the credit union, and share dividends are based on earnings, not guaranteed.

NCUA regulations require that Federal credit unions provide "full and fair disclosure" in their financial statement presentations to their members and NCUA. Full and fair disclosure is met by using the financial statement format of NCUA Form FCU 109A or an equivalent format that is not inconsistent with the FCU Act or NCUA Regulations (See, Section 702.3(b) (2) of NCUA's Regulations and Paragraph 2 of NCUA Interpretive Ruling 81-8). Form FCU 109A, which is contained in the Accounting Manual, shows liabilities, savings, and equity in an unclassified format, i.e., share accounts are shown in a separate category below liabilities and above equity without classifying them as either liabilities or equity. Presentation of share accounts as equity would also be consistent with the FCU Act. Presentation of shares as liabilities, however, is inconsistent with the FCU Act and does not meet the full and fair disclosure requirement of NCUA Regulations.

If your credit union obtains a CPA audit, we encourage you to discuss this issue with the CPA. The AICPA's determination that shares should be classified as liabilities is simply a "guide." It is not an enforceable pronouncement under the AICPA's Code of Professional Ethics. Thus, your CPA may be willing to provide an unqualified opinion based on a financial statement that presents shares in an unclassified manner, or as equity.

NCUA is seeking the AICPA's reconsideration of this issue. In the interim, this guidance should be of assistance in meeting NCUA regulatory requirements and working with your outside auditors.

Sincerely,  
FOR THE NCUA BOARD

D. MICHAEL RILEY  
Office of Examination and Insurance

